

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0836-01  
Bill No.: HB 556  
Subject: Taxation and Revenue - Property: Elderly  
Type: Original  
Date: April 19, 2001

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
General Revenue*	\$0	(\$59,500,000 to \$79,500,000)	(\$61,000,000 to \$82,500,000)
Blind Pension	\$0	(\$305,000 to \$315,000)	(\$410,000 to \$425,000)
<b>Total Estimated Net Effect on <u>All</u> State Funds*</b>	<b>\$0</b>	<b>(\$59,805,000 to \$79,815,000)</b>	<b>(\$61,410,000 to \$82,925,000)</b>

\*Does not include possible increased cost to fully fund Foundation Formula

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Net Effect on Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

## FISCAL ANALYSIS

### ASSUMPTION

**State Tax Commission (TAX)** officials assumed that: increase in taxes on residential property would be 11% per 2-year cycle of reassessment, an inflation rate of 3.5%, 70% of residential property is owner occupied, 26.6% of residential property owners are over 64. **Oversight** estimated possible losses as follows.

Residential Property Tax paid in 1999	\$1,656,991,958
Projected Tax 2001	\$1,839,261,073
Projected Increase	\$ 182,269,115
	x .266
Projected Increase for 64+ Occupied	\$ 48,483,584
	x .70
<b>Projected Increase for 64+ owner-occupied</b>	<b>\$ 33,938,500</b>

If all senior citizen owner-occupied property is occupied by persons who have dwelled on the property for five years or more then the total amount would be lost. If all owner-occupied property is occupied by persons who have dwelled on the property for less than five years then the loss would be 5/11ths of possible loss. Projected losses for subsequent years would increase from 2.5% to 5.5%.

Projected Increase	\$ 182,269,115
	x .734
Projected Increase for Under 65 Occupied	\$ 133,785,530
	x .70
<b>Projected Increase for Under 65 owner-occupied</b>	<b>\$ 93,649,871</b>

Assuming the consumer price index rises more than 5% every two years, 5/11ths of the increase would be lost. Projected losses for subsequent years would increase 2.5%.

Projected Losses for FY 2002:

$\$33,938,500 \times 5/11 = \$15,435,682$  to  $\$33,938,500$  for 64+  
 $\$93,649,871 \times 5/11 = \$42,568,123$  for under 65s.  
**Total = \$58,003,805 to \$76,506,623**

Projected losses for FY 2003:  
 $\$15,821,574$  to  $\$35,805,118$  for 64+

ASSUMPTION (continued)

\$43,632,326 for under 65s  
**Total = \$59,453,900 to \$79,437,444**

Projected losses for FY 2004:  
 \$16,217,113 to \$37,774,399 for 64+  
 \$44,723,134 for under 65s  
**Total = \$60,940,247 to \$82,497,533**

There would also be losses to the Blind Pension fund of a little more than ½ of 1% of the losses to political subdivisions.

TAX officials also note that they would have to provide technological and instructional assistance to county officials, but would request additional resources as needed through budget decision items.

**Department of Elementary and Secondary Education** officials noted that the proposal would decrease assessed values compared to current law, which would increase the amount needed to fully fund the Foundation Formula. They also noted that 1) “hold harmless” districts would recoup their losses through state payments, 2) state payments required by this proposal are not included in the Formula, thus allowing other districts a “double dip” consisting of reimbursements from the state and increased payments through a fully funded Formula, and 3) the effects of the proposal on the Formula should disappear after three or so years because reducing the guaranteed tax base reduces the inflationary adjustment in the Formula for districts to fund inflationary increases in expenses.

Officials of the **Department of Revenue** indicated that the proposal would not affect their agency, administratively.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<b>GENERAL REVENUE</b>			
<u>Cost</u> - Increased Transfers to State School Moneys Fund	\$0	(Unknown)	(Unknown)
<u>Cost</u> - Reimbursements to Political Subdivisions	\$0	(\$59,500,000 to \$79,500,000)	(\$61,000,000 to \$82,500,000)
<b>NET EFFECT ON GENERAL REVENUE FUND*</b>	<b><u>\$0</u></b>	<b><u>(\$59,500,000 to \$79,500,000)</u></b>	<b><u>(\$61,000,000 to \$82,500,000)</u></b>

**\*Does not include possible increase in cost to fully fund Foundation Formula.**

<b>BLIND PENSION FUND</b>			
<u>Loss</u> - Reduced Collections	\$0	(\$305,000 to \$315,000)	(\$410,000 to \$425,000)

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<b>NET EFFECT ON BLIND PENSION FUND</b>	<b><u>\$0</u></b>	<b><u>(\$305,000 to \$315,000)</u></b>	<b><u>(\$410,000 to \$425,000)</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<b>POLITICAL SUBDIVISIONS</b>			
<u>Income</u> - Reimbursements from State	\$0	\$59,500,000 to \$79,500,000	\$61,000,000 to \$82,500,000
<u>Loss</u> - Reduced Property Tax Collections	\$0	(\$59,500,000 to \$79,500,000)	(\$61,000,000 to \$82,500,000)
<b>NET EFFECT ON POLITICAL SUBDIVISIONS*</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

**\*Does not include possible increased distributions to school districts.**

#### FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

#### DESCRIPTION

This proposal would limit increase in assessed value of residential property, excluding new construction or improvements, to five percent or the increase in the consumer price index, whichever is less.

The proposal would freeze assessed value of residential property owned by persons sixty-five or older who have resided on the property five years or more.

This proposal has an effective date of January 1, 2002.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. This proposal would affect Total State Revenue.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education  
Department of Revenue  
State Tax Commission

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "e" at the end.

Jeanne Jarrett, CPA  
Director  
April 19, 2001